

MAXWELL TECHNOLOGIES INC MXWL

February 19, 2019 - 5:48am EST by puppyeh

			2019	2020
Price:	4.74	EPS	0	0
Shares Out. (in M):	46	P/E	0	0
Market Cap (in \$M):	220	P/FCF	0	0
Net Debt (in \$M):	-12	EBIT	0	0
TEV (in \$M):	208	TEV/EBIT	0	0
Borrow Cost:	Available 0-15% cost			

Description

Thesis Summary: Maxwell Technologies (MXWL) last traded at \$4.74, just one penny (or 0.2% of your capital outlay) below the announced bid price from Tesla (TSLA). While borrow costs (1.8% at IB at the moment) will marginally increase your cost of carrying this position for the next 3-4 months (at maximum), barring an overbid (which I view as incredibly unlikely), essentially you risk next to nothing (less than 1% all in) to make a potentially exponential return if the TSLA deal breaks (since this price represented a 55% premium to MXWL's pre-merger price); additionally, MXWL is a dumpster-fire of a company with nary enough cash left to sustain another year of operations, and a host of accounting issues past and present, so fundamental downside is perhaps a lot lower than to the pre-deal price. But it gets even better. MXWL shareholders get \$4.75 in new TSLA shares, capped to the upside, but not on the downside (beyond a buffer zone). In other words, you don't even really need the TSLA deal to break: if TSLA stock trades below \$246 in the 5 days prior to deal closing - that is, just 20% lower than spot - MXWL shareholders will receive only 0.0193 TSLA shares per MXWL share, providing synthetic exposure to a collapse in TSLA's stock price on or before this spurious deal closes (sometime in the next 3-4 months, apparently).

While this is clearly a small-cap company, volume is adequate for most small funds (>\$5mm ADV of late), and borrow is surprisingly available, making this highly actionable. Given the small market cap and irregular nature of the idea, this will be a short writeup - happy to answer any follow-ups in the questions.

Introduction: 'Take care of the downside, and the upside will take care of itself,' my Pops used to say, as he bounced me gently on his knee when I was a bub. Well, no, not really - I must have heard it somewhere else along the way. But I have always been attracted to massively asymmetric bets (and I guess by extension the value investing philosophy in general), and the current situation in MXWL seems almost too good to be true in this regard. Let me caveat at the outset by saying I am neither a merger arb expert, nor a battery technology expert, and while I have made investments in both fields in the past, I am approaching this very much from a generalist perspective. Please note also that I am short TSLA, both stock and via derivatives.

Let me start with a quick summary of recent events. MXWL is a crappy, small, battery/energy storage company that has historically been, as a Texan would say, 'all hat, no cattle'. They have accumulated a deficit of \$283mm over their history; have burnt cash in 5 of the last 6 years (including >\$60mm last yr); have progressively sold off their profitable businesses to sustain their money-losing Ultracapacitor/Dry Electrode businesses; have repeatedly run afoul of regulators (restating 2011/2012 financials a few years ago, and violating the FCPA a few yrs ago for which they are still being sued by the Swiss). As with many dodgy small-caps, they have funded the promise of a revolutionary future with frequent stock issuance and, more recently debt issuance (hmm, this pattern rings a bell...). Despite all this, the recent 10-K makes it quite clear that the company, as currently capitalized, had perhaps another year of runway before more capital is needed (burning \$11mm cash per Q, no backlog, ongoing high R&D needs, and only \$58mm cash post the most recent asset sale), and they only cured a much more dire going concern qualification in the Sep'18 accounts by selling their only profitable business, High-Voltage, for an immediate cash injection in December. They freely admit throughout their documentation that commercializing Dry Electrode tech - the big technological promise they are developing - would require a boatload more capital, as well.

Enter TSLA with a rescue bid on Feb 4, valuing MXWL at \$4.75 per share in new TSLA shares. There were a few odd things about the bid from the outset. Firstly, this is a very small acquisition that - for most large cap companies - would be consummated in cash. Secondly, as recently as last August, MXWL had issued stock at \$3.25, and business had clearly deteriorated since then; furthermore the stock was trading around \$3 at time, providing perhaps an unnecessarily large premium for a company with going concern issues. More worryingly, despite the prompt filing by MXWL of the relevant 8-K and standard merger documentation, there was not even a press release issued by TSLA, let alone an 8-K, regarding the acquisition. We have now gone two weeks since the Merger Agreement was apparently signed (Feb 3 per MXWL documents) and there is still no formal or informal acknowledgement of the deal by the acquiring party...strange, to say the least (frankly I have never seen this kind of delay in my investing career). These events prompt questions, which it would be natural to ask the acquiree...unfortunately however MXWL canceled their year-end call in light of the pending acquisition, so no dice there either.

Without going too much into TSLA's supposed rationale for the purchase, some online commentators have highlighted the clear link between TSLA's China Gigafactory investment, and bailing out the Chinese government for its loss-making investment in MXWL a couple of years ago (<https://www.pivotalcapitalresearch.com/home/tesla-acquires-maxwell-technologies-buyout-bailout-or>). Others on the sell-side have opined that MXWL's tech may actually make sense in helping maintain TSLA's apparent lead on battery technology (I believe Jefferies). Whatever - I want to focus on deal mechanics, and what could happen to derail the bid from here.

Deal Mechanics: The MXWL 8-K makes the terms quite clear. Providing the deal conditions are met (see below), MXWL shareholders will receive \$4.75 in TSLA shares providing the 5-day average TSLA trading price prior to the close of the transaction (presumably in the next 3-4 months, maximum) is >\$246. If TSLA is <\$246, then MXWL shareholders get 0.0193 TSLA shares per MXWL share. Essentially then

MXWL shareholders are short a TSLA put that knocks in at \$246. Thus, for example, if TSLA shares fall to \$225, MXWL shareholders would get $0.0193 \times 225 = 4.35$; at \$200 per TSLA share this falls to \$3.86; and so on.

So, what then are the closing conditions? These are mostly boilerplate (anti-trust provisions; majority of votes support the merger; etc) but one in particular is of consequence: TSLA needs to file an S-4 to register the new shares for sale with the SEC, and this has to be deemed effective. This is the KEY issue - without an effective S-4, TSLA cannot issue the shares and thus the merger could not happen as contemplated. Feel free to mosey on over to the TSLA board here for a more fulsome discussion of doubt regarding TSLA's ability to issue publicly tradeable stock at the moment (there is also a huge amount on Twitter), but suffice to say that:

- a) TSLA has not issued public stock or debt for well over 12mos now and is thus not a 'well-known seasoned issuer', the result of which is that any prospectus filing for new issuances (on form S-3 or S-4) are particularly onerous;
- b) it is unlikely/perhaps impossible for TSLA to file the needed S-4 without an audited, signed off 10-K; as we know TSLA still hasn't filed this.

Frankly, I don't pretend to have all the answers, nor is this situation large/liquid enough to dedicate a huge amount more time than this. But the point is at the current price, merger arb guys (or retail punters) are so asleep at the wheel as to provide a hugely asymmetric payoff where we lose next to nothing in the base-case outcome but make out like bandits if the wheels fall off suddenly. And it doesn't stop here. Even if the deal goes ahead as planned with no hiccups, but TSLA stock takes a tumble before the deal closes for unrelated reasons like US sales falling off a cliff, or tepid European demand, or Musk overdosing live on a podcast or something - we still have a strong chance at a positive return. I like these kinds of trades.

Why there won't be an overbid: Clearly the biggest risk for the trade. However I sleep pretty easily on this one, because:

- the premium paid was already massive and beyond what a dumpster fire of a co with <1yr of cash runway would expect;
- anyone who wanted to buy the tech could have had the company last summer when they did another dilutive offering at \$3.25;
- they have already sold their only profitable business (High Voltage), meaning the co has presumably already shopped part/most of the business;
- there was no go-shop provision in the agreement, suggesting MXWL management knows this deal, such as it is, is the best they can hope for.

What happens if the deal breaks? Well, the stock should clearly go back to where it was, at a minimum (ie, \$3), so call it 38% downside. However, in this scenario, I think it is a matter of time before a further massive dilutive offering, or worse, because:

- as mentioned the co is burning cash at the rate of \$10-11mm/qtr and has maybe enough for 5qtrs of life at current rates (but has highlighted a need for substantial additional capital);
- there are a number of accounting red flags that, because MXWL canceled the year end call, no one could really focus on. For example, inventories ballooned in the recent reported period (155 days vs 102 days in 2017), despite sales on a like-for-like basis being essentially flat. The company mentioned transitioning to a new contract manufacturer that demanded consigned inventory held on site and quarterly purchase commitments...even so these are historically high levels of inventory for this company and recall it has sold its only profitable businesses so there is large writedown risk here;
- payables contracted massively, trade payables fell to just 23 days in 2018 (versus 80 in 2017, and 40-50 4-5yrs ago), suggesting an unwillingness to accept MXWL credit;
- ongoing legal risk from Swiss enforcement of prior FCPA breaches that the company admitted to a few years back.

All in all this is very much a 'heads I win, tails I don't lose' type situation - very much to my liking given my underlying bearish view of TSLA.

I do not hold a position with the issuer such as employment, directorship, or consultancy.
I and/or others I advise hold a material investment in the issuer's securities.

Catalyst

- Deal break
- Tesla blowup

Messages

Subject 10K just in
Entry 02/19/2019 07:34 AM
Member punchcardtrader
https://www.sec.gov/Archives/edgar/data/1318605/000156459019003165/tsla-10k_20181231.htm

We make out like bandits if the wheels suddenly drop off [no M3 pun intended]

Subject trade expression
Entry 02/20/2019 10:49 AM
Member pcm983
 thanks for the idea. why do you think this is best way to play it? gross risk is 1.2% of capital if you do borrow + spread. why not just buy otm puts if you think can't issue stock or gonna collapse etc.?

Subject update
Entry 02/20/2019 03:14 PM
Member puppyeh
 ok, so TSLA managed to file the 10-k, and today, the S-4...so they're definitely going to close on the deal right? well, probably...but keep in mind a few things

- the S-4 is a preliminary statement and has not yet been deemed effective and registered by the SEC;
- the expedited timeline (8 weeks from first contact to closing, including bumping the price >100%) makes it seem REALLY likely TSLA wanted to push this through quickly...why exactly?
- TSLA's GC, brought in specifically as a pair of adult eyes post SEC settlement, resigned after 2 months and his signature is nowhere on this document (or the 10-K)...

will read the S-4 closely and come back with anything but again, as per the original writeup - I can think of a few ways the entire TSLA narrative unravels in a hurry, while ultimately I'm only risking a few pennies now being short via MXWL if they manage to close this deal in the next couple months.

Subject Re: trade expression
Entry 02/20/2019 03:17 PM
Member puppyeh
 my pleasure. A few reasons options dont make sense here:

- there is no liquidity in the options (or very little), and b/o is v wide
 - assuming the above is not an issue, options would make more sense only if i was v worried about the risk of an overbid. essentially i view shorting the stock now as like an option, as the absolute downside is v low and I'm not worried about an overbid
 - getting out/crystallizing an option position may get somewhat messy if/when the actual conversion into TSLA shares takes place...much easier to just short the stock
-

Subject Re: Re: trade expression
Entry 02/20/2019 04:17 PM

Member pcm983

thanks. sorry i meant why not do tsla puts instead with some risk capital. here you are doing risk 1.5% for maybe 8-10% payoff, depending on tsla px; why not just do otm puts on tsla w same capital?

Subject Re: Re: Re: trade expression

Entry 02/26/2019 04:15 AM

Member puppyeh

because, as the writeup makes clear, this is not just another way to short TSLA. yes you get paid if TSLA stock px craters but you also get paid much more than 5:1 if the deal actually breaks (clearly more likely as TSLA stock goes lower but in any case a non-zero possibility independently). as i said i think the downside could really be well below deal price (so exponential return given initial risk of 1-2c) if the deal breaks, this is not purely just a 'cheap' way to short TSLA synthetically

Subject tender date extended for the first time

Entry 03/15/2019 11:24 AM

Member puppyeh

10 day extension to Apr 1. not a huge surprise but clearly they have still not gotten their S-4 deemed effective...

...at the same time as the Model Y unveil was a total dud. Yes the price is lower (4.6 as I type) but still an incredible risk reward IMHO for both angles of the trade (synthetic TSLA short as demand cliff becomes apparent; and actual deal break risk if TSLA can't get the SEC to approve their docs), risking now 15c to make, what, \$2 if it breaks completely? this is surprisingly liquid and borrowable too (really not sure why, maybe I am one of the few who thinks its interesting)

Subject Re: tender date extended for the first time

Entry 03/28/2019 09:20 AM

Member puppyeh

...and the deal got extended another 10days. still no effectiveness for the reg statement...6 weeks have now passed since the deal was announced. i guess we have to wait to see if anything changes post apr 4 (when sec/musk contempt hearing takes place) but its becoming increasingly clear the equity window for a registered offering is shut, as jcov has repeatedly postulated. still think this is an excellent risk/reward even at 4.6

Subject Is there an SEC registration expert in the VIC house?

Entry 03/29/2019 10:14 AM

Member hkup881

Despite having seen a lot of mergers in my life, I haven't bothered to fully read too many of the documents (acquisitions by large companies with fancy lawyers usually close if shareholders agree and there's no regulatory issues).

Does anyone know how frequently the registration statement is denied twice? Is this pretty standard as part of the process or something of an outlier?

From others who have parsed both documents, it seems that the only changes to the newer statement were some bio info and added disclosure on risks. Basically nothing changed. Is this normal to have very minor updates to the document? or is the SEC stonewalling them by forcing them to update minor items repeatedly rather than giving a firm "no" answer?

Is the SEC allowed to not agree to a registration of shares if shareholders agree to the merger? hence the stonewalling? or if the SEC doesn't agree, would they at some point say "we refuse to register these shares stop filing these" or would they keep finding some minor nitpick and forcing TSLA to re-file forever without ever giving a firm "no"?

Thx in advance

Subject Re: Is there an SEC registration expert in the VIC house?

Entry 03/29/2019 11:17 AM

Member Harden

I could be wrong about this but I think if they wouldn't want to do it altogether (which is the Tesla can't issue equity idea) they wouldn't give opportunities to fix things.

Subject Re: Re: Is there an SEC registration expert in the VIC house?

Entry 03/29/2019 12:06 PM

Member straw1023

isn't the SEC limited to accepting or rejecting? They cannot make broad pronouncements. This is typical of lots of legal/regulatory decisions. This follows the "case or controversy" restriction on judicial power. The SEC can only rule on the application submitted and cannot make broad pronouncements about unsuitability of company. This is a norm and not a law, and it is broken of course. But here, I doubt SEC wants to make broad pronouncement, esp with the other stuff swirling.

Subject Re: Re: Re: Is there an SEC registration expert in the VIC house?

Entry 03/29/2019 12:18 PM

Member jcoviedo

Like any government agency, the SEC can put Tesla and Maxwell through what Elon likely will call "Red Tape Hell" and just endlessly stall the process like the very fine professional bureaucrats they are. Doesn't mean they are killing the deal per se, just means they aren't going to allow it to get through "Red Tape Hell" until Elon is gone as CEO and director.

Kind of like how MOFCOM never actually rejected the QCOM-NXPI deal they just refused to rule one way or the other.....

Subject Re: Re: Re: Re: Is there an SEC registration expert in the VIC house?

Entry 03/29/2019 03:09 PM

Member tyler939

jcoviedo, do you have any examples of the SEC stringing along another company? I am perplexed about what is going on, but the fact that they are making changes seems like progress from Tesla's perspective (I do however think they may be waiting on the outcome of the contempt motion).

Subject Re: Re: Re: Re: Re: Is there an SEC registration expert in the VIC house?

Entry 03/29/2019 03:30 PM

Member jcoviedo

Tesla is an edge case. I can't recall any other companies of this market cap that openly and publicly defy the SEC and basically contest their authority to regulate.

The better question to ask is, is there any example of a company that is concurrently involved in securities fraud litigation with the SEC that has been able to get a registration statement approved? I'm pretty sure the answer to this is No.

Subject Re: Re: Re: Re: Is there an SEC registration expert in the VIC house?

Entry 03/29/2019 04:49 PM

Member straw1023

jcoviedo,

I agree with your analysis.

A good example of this (if my memory is correct) regards the final approval of IPO Registration Statement. Under the law, the SEC has 2 weeks (I believe) to accept or reject, but the the price will be stale in 2 weeks so it all depends on SEC willingness to grant an acceleration request. The power of this acceleration request is the main lever of power of the bureaucrats. The interesting thing is this seems to be by accident, not by legislative or regulatory design.

Subject What is the significance of the new amendment to the S-4?

Entry 04/03/2019 09:05 AM

Member tyler939

I don't understand what they are amending, but the stock is up .10 in pre market.

Subject Re: What is the significance of the new amendment to the S-4?

Entry 04/03/2019 09:06 AM

Member jcoviedo

Tesla attached the amendments to the ABL from early March and the Shanghai gigafactory loan documents to the merger proxy. I don't see any changes in the language of the new S-4.

<https://www.sec.gov/Archives/edgar/data/1318605/000119312519095913/d625340dex1068.htm>

<https://www.sec.gov/Archives/edgar/data/1318605/000119312519095913/d625340dex1069.htm>

Subject Re: What is the significance of the new amendment to the S-4?

Entry 04/03/2019 09:23 AM

Member tyler939

I can't seem to use the edit function. Is it the fact that they haven't extended the deadline what people are focusing on?

Subject Re: Re: What is the significance of the new amendment to the S-4?

Entry 04/03/2019 09:57 AM

Member puppyeh

no changes of significance. i think the move in mxwl is purely related to the (insane but short covering driven) rally in TSLA shares

Subject Re: Re: Re: What is the significance of the new amendment to the S-4?

Entry 04/03/2019 09:59 AM

Member tyler939

Going by past extensions, wouldn't they have extended the deadline at this point

Subject Re: Re: Re: Re: What is the significance of the new amendment to the S-4?

Entry 04/03/2019 10:12 AM

Member pcm983

no keep in mind this was a 10 day extension - would be next week

Subject Re: Re: Re: Re: Re: What is the significance of the new amendment to the S-4?

Entry 04/07/2019 04:03 PM

Member pcm983

my understanding is we likely see another delay tomorrow. As long as s4 is not effective the tender cannot close.

Subject Extended again...

Entry 04/08/2019 06:33 PM

Member puppyeh

...this time to may15...le a date by which TSLA will have filed their 10-q. If there were any remaining believers that TSLA could get a statement registered with the Sec, they should be dissipating. This third extension takes the merger to its natural expiration date (May15) per the merger docs; cumulatively by this date the original merger date will have been extended in excess of 40 business days (two previous extensions of 10 days each plus this one) which according to my reading of the s-4 (page 53) suggests we may not even need to wait until the long stop date (July 3) to kill this deal. Thoughts welcome on this.

in any case the takeaway is the SEC is raising Elon in this poker game - Elon needs to settle pronto (if he even can) and get the SEC on sides otherwise this deal dies in a month and with it the ability to access cap markets for a larger equity deal they need

Subject Re: Extended again...
Entry 04/08/2019 07:35 PM
Member roark304

Thoughts welcome on this.

seems a lot more likely this is just a standard TO extension because shares tendered are way short of the minimum requirement

Subject Re: Re: Extended again...
Entry 04/08/2019 08:28 PM
Member jcoviedo

This is now the third extension of the TO. The prior extensions of the TO have been for a couple of weeks. This time TSLA/MXWL are extending the TO an extra month.

The SEC has still not declared effective the registration statement for the merger which is a required condition for the merger to close. It seems doubtful that the SEC will ever declare the registration statement effective. Tesla specifically says the extension is related to the filing of the 10-Q " Tesla is extending the offer, so that its expiration is no earlier than the filing of Tesla's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 with the Securities and Exchange Commission."

Seems pretty easy to infer from that statement that the extension is related to issues Tesla is having getting the registration statement declared Effective and not related to issues that TSLA/MXWL may be having in getting the shares tendered. Why else would Tesla specifically cite the filing of the 10-Q as important for the closing of the merger?

Subject Re: Re: Re: Extended again...
Entry 04/08/2019 10:54 PM
Member roark304

right but can't they just be saying they now have a stale s-4 that pre-dates a quarter they just vaguely warned on, and so will have 'facts and events' obligations to incorporate the Q? the minimum tender majority is a mile from being met so it doesn't seem like there's much of a mystery to why it hasn't closed.

Subject Re: Re: Re: Re: Extended again...
Entry 04/09/2019 12:36 AM
Member pcm983

this is all predicated on the s4 being declared effective - no one will tender until its going to close as otherwise you are taking huge vwap risk - and i'm not positive but usually once you tender you can't trade your shares

it's starting to look like the crazy conspiracy theory they can't raise capital due to some big DOJ investigation or SEC prohibition is looking a lot more likely

Subject Re: Re: Re: Re: Re: Extended again...
Entry 04/09/2019 03:12 AM
Member puppyeh

Roark - I am not a merger expert (surely someone here is, and can answer this definitively), but I believe once tendered you may be restricted from trading, depending on how you hold your shares. at the firm i used to work for this was definitely the case (a typical master-feeder HF structure) because we had to instruct the PBs to tender on our behalf and once that happened the shares were 'circled' and untradeable (on the assumption the deal would close). i don't think a low acceptance ratio means anything - especially as the offer price was ratcheted up 4x aggressively to get board acceptance and the company is insolvent without the bid.

in other words this is all about getting the S-4 deemed effective by the SEC. thus to my mind there are only two possible things going on:

- the SEC made some requests for more information to be disclosed, etc, and TSLA after prevaricating said 'we'll beef it up in the 10-q', and the SEC will take another look then and perhaps grant effectiveness;
- the SEC is simply refusing to allow effectiveness of the statement for any reason.

I suppose, given the language, option 1 sounds more likely - but remember this is a TSLA press release so of course they would want option 1 to be seen as more likely because option 2 consequences are pretty dire. I personally think option 2 is the real reason (given the multiple extensions and lack of cap raising otherwise at TSLA proper), but its fairly moot because if the required disclosures are so significant that SEC won't register without them but TSLA won't include them then they get no capital.

At the very least I don't see the SEC backing off from this stance - now that Musk has powned them, repeatedly, inside and outside of court - until Musk is gone. That may very well happen in the next few weeks, let's see. But otherwise I really can't see how this closes.

Subject Re: Re: Re: Re: Re: Re: Re: Extended again...
Entry 04/09/2019 08:46 AM
Member roark304

you're right that does make sense. the minimum share condition is irrelevant as of yet because they are extending it so far before expiration the tender # doesn't have a chance to really show up. i have literally never seen a tender extended materially for issues that don't have to do with the minimum tender condition or some non-SEC regulatory hurdle, but there really doesn't seem to be any evidence MXWL shareholders are holding out here. i'm trying to think of the most innocuous reason for this:

1 - SEC doesn't like TSLA, just giving them a hard time but not necessarily barring them from registration

2 - initial S-4 had some fairly minor changes, then all the bad news from Q1 started coming out and the SEC wanted TSLA to update the S4 but TSLA didn't want to starting prematurely disclosing more Q1 details and is waiting for the Q to keep their timeline on their terms

and the conspiracy theory bad case for TSLA is:

this acquisition was primarily just a trial balloon to see if the SEC will let them raise equity? so they're worried about a failed equity deal but think that a failed exchange offer could be blamed on something else?

Subject Re: Re: Re: Re: Re: Re: Re: Extended again...

Entry 04/09/2019 09:49 AM

Member puppyeh

yes exactly - and even being extremely generous with giving them the benefit of the doubt, the conspiracy theory makes by far the most sense at this point. my writeup dealt with many reasons why MXWL is basically a dumpster fire, and would/will very much likely go bust without TSLA's capital (indeed the 1Q report which they now will have to file may say as much). the idea that TSLA was ever actually motivated to buy them for commercial reasons is laughable - they didnt even put out a presser announcing the transaction, for goodness' sake, and to my knowledge have never discussed the benefits of the transaction in terms of helping TSLA's business once consolidated.

Subject Re: Re: Re: Re: Re: Re: Re: Re: Re: Extended again...

Entry 04/09/2019 10:29 AM

Member Harden

the idea that TSLA was ever actually motivated to buy them for commercial reasons is laughable - they didnt even put out a presser announcing the transaction, for goodness' sake, and to my knowledge have never discussed the benefits of the transaction in terms of helping TSLA's business once consolidated.

Tesla may not have touted Maxwell tech pre-transaction because they may have wanted to roll it out as Tesla tech post-transaction.

Subject Re: Re: Re: Re: Re: Re: Re: Re: Re: Re: Extended again...

Entry 04/10/2019 02:24 PM

Member bdad

why would TSLA go through this hassle if they never wanted to own MXWL? is there a deadline here or can we be in S4 purgatory forever? presumably MXWL won't walk if they see intrinsic value anywhere close to where you think so what causes things to collapse?

Subject Re: Re: Re: Re: Re: Re: Re: Re: Re: Re: Re: Extended again...

Entry 04/10/2019 04:15 PM

Member puppyeh

why would TSLA go through this hassle if they never wanted to own MXWL?

to find out if they could get an S-4 through the SEC or not, as has been discussed ad nauseam. clearly there is at the very least doubt regarding their ability to register securities for sale - using MXWL as a trial balloon is considerably less harmful to the TSLA myth (if the MXWL deal fails) than trying to do a primary offering; failing; and thereby sparking a run on their own stock.

is there a deadline here or can we be in S4 purgatory forever?

its all in the deal docs - the longstop date is July 3. deal would be killed if it seems unlikely they can get deemed effective in a timeframe to allow the deal to close by then (so, i dunno, mid-June?). so not too long

presumably MXWL won't walk if they see intrinsic value anywhere close to where you think so what causes things to collapse?

of course MXWL won't walk. TSLA will walk because they can't issue shares and they're not going to pay cash. that will cause it to collapse (in addition to large likely cash burn and potential inventory impairment in 1Q which should also make clear how badly MXWL needs capital)

Subject Not much to add post TSLA call

Entry 04/25/2019 11:15 AM

Member puppyeh

So the GC, Mr Chang, confirmed that consultations with the SEC were the delay for the transaction but that they expected to close 'on track' (of course this is the 4th extension so I guess that's another mini-fib by TSLA standards, but whatever).

im not really sure why the stock is up - this isn't really good news. it confirms the SEC is holding up the deal for some reason. the response from Chang was very lawyerish (meaning no detail, significant room for interpretation), very cryptic, and was clearly couched in language safely ensconced by the safe harbour provisions of the call.

meanwhile, before this even gets close to settling, we will get at least TSLA breaking through the strike (\$246) and so the ultimate upside for MXWL holders is very unlikely to be \$4.75 in TSLA shares. we may even get a (dismal) MXWL earnings release (not sure when that would be though but I imagine they file the 10-Q sometime early may). we may even get the beefed up TSLA disclosures (in their own 10-Q) which, given Chang's reticence, probably aren't good and thus could catalyze even more downside in TSLA shares (and so MXWL too).

of course I'm short way more TSLA but this still seems like a pretty juicy swing here.

Subject tick tock

Entry 05/01/2019 03:05 AM

Member puppyeh

so the 10-q has been filed and appended to the latest updated S-4...but the statement is still not deemed effective. we are now really getting down to it. the last extension (the one to May15) seemed to suggest that TSLA filing their 10-Q was one of the SEC's remaining objections re disclosures; that appears now not to have been the case. Thus, whatever the TSLA GC was talking about in the CC re remaining issues to be sorted out with the SEC, they don't appear to be 10-Q related. i wonder what they could be?

Subject Re: tick tock

Entry 05/01/2019 05:07 PM

Member HTC2012

Maxwell results. Wow.

- **Reports Q1:**
 - Revenue \$15.4M vs year-ago \$23.0M
- Note MXWL announced an agreement to be acquired by Tesla (**TSLA**) on 4-Feb-19

Subject Re: Re: tick tock

Entry 05/02/2019 03:50 AM

Member puppyeh

the numbers are horrific (not that we should have expected anything else given they sold HV, their only real business, to raise cash in Dec). revs -33% and -10% GMs. inventories building again. burnt \$10mm in the Q (almost all OCF since they are spending no money) and it would have been \$15mm if they paid their suppliers (A/P increased \$5mm QoQ).

it's quite clear they won't last 2019 without new financing - again raising the question of why TSLA even wants this; and particularly, why they bid through the nose, repeatedly, to get management agreement for the deal. i stand by my contention that this was and is remains a trial balloon for TSLA with the SEC and without the deal is essentially worthless.

Subject Re: Re: Re: tick tock

Entry 05/02/2019 08:13 AM

Member MadDog2020

Hate to be the bearer of bad news but TSLA just filed a prospectus for \$600m+ in stock and \$1.3b converts. <https://www.sec.gov/Archives/edgar/data/1318605/000119312519133824/d733818d424b5.htm>

Subject Author Exit Recommendation

Entry 05/02/2019 09:57 AM

Member puppyeh

The author has recommended exiting the position

Subject Re: Author Exit Recommendation

Entry 05/02/2019 10:00 AM

Member puppyeh

Since the main driver of this thesis was the idea that TSLA could not get a reg statement past the SEC, I have to cover this now as clearly that belief has been proven wrong.

It always sucks to be wrong but the good news is given the entry point and dynamics as described in the writeup, this was still a positive PnL trade with (at inception) essentially no downside imo.

This idea generated a gross 4.5% return (using current px of \$4.54) versus the SPX +5% over the timeframe of the trade (since mid-Feb), ie around 10pts of alpha, before borrow costs (which were never substantial).

Subject Re: Re: Author Exit Recommendation

Entry 05/02/2019 10:38 AM

Member Light62

I'm not involved in MXWL but from what I understand you aren't necessarily wrong about whether or not TSLA can get a registration statement declared effective & I don't believe the news today has any information value related to that question. The mechanism for issuing the MXWL shares and the mechanism for the stock/debt TSLA is going to issue to the public are different and the SEC has different levels of control in each context (i.e. none in the public offering and considerable in the MXWL deal). This strikes me as dumb given the practical effects of each deal* but it is the way that things work (much like how certain actions that are legal in other merger pathways are illegal in a tender offer).

As far as I can tell the fact that TSLA is still a WKSJ (which is how they are issuing the stock/debt filed today) doesn't tell us anything about the SEC's disposition toward the S-4 and Maxwell deal; the SEC had no say over the offering today but retains influence over the S-4 and Maxwell deal which is now an outlier for time from filing to effectiveness (extra weird given the simplicity of the deal).

The public offering is being done by TSLA through Rule 405. TSLA is clearly still a WKSJ and, as we know, has a shelf. My understanding is that being a WKSJ and having a shelf are the two requirements to be able to issue stock under Rule 405 - thus the SEC has no recourse to hold things up (maybe if you weren't current on your filings it would be a different story but caveats like that don't seem relevant here).

The MXWL shares are not part of the shelf - because it's a merger and new shares are being issued the company has to file an S-4 and has to rely on Reg D. Reg D, specifically, is not available to companies that have violated certain laws; that is why the SEC had to provide TSLA a waiver and that waiver may have been revoked (though again it may have been reinstated after the recent detente). The S-4/Reg D pathway requires explicit SEC approval of the registration statement (something NOT required for the S3-ASR of a WKSJ).

*One is \$blns of sold in small parts to diverse buyers who have varying levels of sophistication who can then resell it to the public at large; the other is hundreds of millions of \$'s sold to one corporate entity who presumably has some sophistication or the ability to retain sophisticated legal and financial advisers who then may be locked up from reselling it to the public (I don't know what the terms were). The first one seems like a much bigger risk for the capital markets than the second but the SEC has far more discretion in the second.

Subject Re: Re: Re: Author Exit Recommendation
Entry 05/02/2019 01:13 PM
Member slim
 puppyeh,

Light62 is correct. Although we have an answer as to whether TSLA can use its shelf offering to raise capital utilizing form S-3 (it can), we do not yet have an answer as to whether or not the SEC will declare effective TSLA's MXWL registration on form S-4. That is yet to be determined.

Subject Value of a put option
Entry 05/02/2019 05:55 PM
Member rookie964

I have followed the thread and have found the commentary quite insightful. Perhaps I am missing something, but it appears that even if there was a 100% probability of deal closure, MXWL should be trading wider than current levels simply to reflect the inherent put option value in TSLA @~246/sh. What we do not know is the duration of this option, which further complicates the valuation. BUT, with defined upside risk of \$4.75, a synthetic put option that is currently in the money, and heightened volatility surrounding TSLA's stock during the first public secondary in some time, it would appear to me that this is mispriced. A quick fact check on this is to look at the value of current ITM puts in TSLA.

Let me ask you this, what happens if the SEC hasn't approved the S4 by the deadline (which is coming up I believe)? Is it possible TSLA has grown tired of this deal and simply uses this continued delay as means to walk away from a transaction that looks to be bleeding substantial cash (noticed it would have been much worse without the significant benefit to WC from AP and accrued expenses) and exhibiting declining revenues? I haven't gone through the agreement in its totality, but I do recall someone on this thread suggesting that this could be a backdoor way of seeing if TSLA can issue stock. If they found another way (as evidenced today), why continue with the trial balloon?

Subject Re: Value of a put option
Entry 05/02/2019 06:06 PM
Member Light62

I suspect the fact that they had another way (I don't think they found it I rather believe they always had it and knew as much) indicates this probably wasn't a trial balloon. If it was a trial balloon it would've prolly been a trial balloon for a private offering which maybe they preferred enough over a public one to run this experiment but that seems harder to fathom

Subject S-4 deemed effective
Entry 05/13/2019 10:36 AM
Member puppyeh

thanks all for the comments on this; while it caused a decent amount of brain pain i also learnt alot from the unfolding of events here, and as previously mentioned the entrypoint was attractive so the trade still made money. the filing of this should put the technical issue re raising to bed for now.

<http://ir.tesla.com/static-files/6e4b285a-a575-450c-ba1c-91fd8c291887>

Subject Re: S-4 deemed effective
Entry 05/13/2019 11:30 AM
Member Light62

Thoughts on going long here (9% discount)? Why would the deal not get done at this point?

Subject Re: Re: S-4 deemed effective
Entry 05/13/2019 11:57 AM
Member rasputin998

How do you get a 9% discount? It's .0193 TSLA shares at \$226 = \$4.36 for MXWL.

Subject Re: Re: Re: S-4 deemed effective

Entry 05/13/2019 12:03 PM

Member pcm983

Its like 5 pct

need go use tsla vwap starting 5/8 x .0193

Subject Re: Re: Re: Re: S-4 deemed effective

Entry 05/13/2019 12:11 PM

Member rasputin998

I'm confused. Why would we use the VWAP? My understanding is that with TSLA below \$246 you get .0193 TSLA shares and that's it.

Subject Re: Re: Re: S-4 deemed effective

Entry 05/13/2019 12:20 PM

Member Light62

My apologies I had forgotten about the terms if Tesla goes below \$246. Bloomberg still has it as a flat \$ value of TSLA stock.